Submission to the Tasmanian Legislative Council Select Committee inquiry into the Tasmanian Forests Agreement Bill 2012

From Andrew Denman, President, Tasmanian Special Timbers Alliance (TSTA)

This submission to the Legislative Council discusses the proposed Tasmanian Forests Agreement Bill 2012 (TFA) and why it should not be passed in its current form. TSTA firmly believes that this bill does not address nor even consider the timber supply needs of the specialty timber value adding sector and as such should be amended as suggested further in this document.

Overview

- The IGA **guaranteed** a SST supply of at least 12,500 cubic metres per annum subject to verification.
- **No** studies into industry demand for SST has been carried out to date despite millions of dollars being spent on the IVG process and promises to the contrary.
- There has been no assessment on whether the proposed reserves contained within the TFA will be able to supply the SST industry.
- The SST industry has been completely left out (deliberately) of the IGA/Forest peace deal process and is now facing certain economic demise as a result of the TFA, unless the agreement is scrapped entirely or suitable amendments can be made to accommodate this valuable industry sector.
- The proposed TFA needs to deal with special timbers as a separate issue as opposed to considering it in the broader timber industry context.

Introduction

The Special Timbers value adding industry in Tasmania is a large and vibrant industry sector that employs over 2000 FTE and has over 8500 people engaged either part time or as hobbyists (Farley et. al. 2009). The sector contributes hundreds of millions of dollars to the States economy every year and as an employer/economic contributor in Tasmania, is much larger than Ta-Ann and would be one of the largest sectors in the timber industry in the State.

As you would all be aware, the IGA/peace deal process was founded on the premise that the timber industry was in a decline – the "perfect storm" of market conditions is a phrase often used. Whilst this may be the case for the larger eucalypt sawlog/pulp sector, it is in **complete contrast** to the SST value adding sector which has enjoyed strong growth and high demand for its niche products. There is plenty of anecdotal evidence to support this and even the 2012 URS review into FT stated;

"Demand for higher value appearance products is likely to continue to grow nationally"

The proposed TFA does nothing to secure a future for this industry sector. The IGA/IVG completely failed to verify the amount of SST required by industry despite verification being a required outcome of the process. The TFA has been allowed to develop without this important information and as a result, the TFA reserve boundaries have been made without **any** justification/rationale that is relevant to the SST industry requirements.

The Tasmanian SST Value Adding Industry is completely reliant on a reliable, sustainable Special Species Timber (SST) resource for its ongoing survival.

The only figures of any use on SST to come out of the IVG process were that there were 23 long term contracts to supply SST totalling 19,230 cubic metres per annum and the past decade long average annual harvest figure for SST was 16,748 cubic metres – well above the paltry possible <u>9000</u> cubic metres per annum mentioned by FT in hearings on the 17th January 2013.

Despite this information being available to the IGA signatories, they either had no concept of what such a massive reduction in SST would do to our industry sector or they did know and the forest required to ensure supply to the sector was offered up as a sacrifice to vested interests. I would strongly suggest the latter.

SST value adding industry individuals have asked for representation and their needs to be considered throughout the IGA/IVG process but requests have fallen on deaf ears. The final proof of this is that the TFA signatories and Government are prepared to sign off on new reserve areas with;

- absolutely no evidence of the impact of a smaller resource base on the SST sector
- absolutely no idea of the amount of special timbers in the proposed reserves by yield/species/age profile
- absolutely no management plan for ongoing supply for SST

The arrogance and lack of responsibility of this approach is appalling. Where is the justification for downsizing the value adding industry in all of these reports and investigations? – There is absolutely **NONE.** The fact is, that timber supplies for our sector come from old growth forest areas that have been divided up amongst vested interests without any regard to the impact of this decision on the livelihoods of thousands of Tasmanians.

Our industry sector has been treated with complete contempt by State/ Federal Government and signatories to the TFA and to pass the TFA as it stands would collapse the SST value adding industry and have dire economic and social consequences for Tasmania.

SST Supply Shortages

The IGA/peace deal process that was meant to "rescue" the timber industry has actually had the opposite effect on the SST value adding industry. SST areas (normally old growth coupes for non-blackwood species) have been avoided being harvested over the past few years at Government direction. As negotiations have dragged on, the supply of available SST for industry has been severely affected and there is no clear plan forward to address this issue. There are now critical shortages of supply in some of the SST species. These shortages should have been easily forecast by the signatories and Government if they had any understanding of the sector and how it operates. It was painfully obvious to those working within the sector that shortages would occur but we had been consistently advised by the State and Federal Government ministers that the SST sector had nothing to fear as our supplies would be guaranteed.

A case in point here that you would all be familiar with is the complete absence of celery top pine resource for boat builders. The boat building industry is heavily reliant on celery top pine as its main boat building timber. The 2009 Woodcraft Study (Farley et. al. 2009) found that 42% of all boat building timber used in Tasmania was celery top with huon pine a distant second at 28%.

According to the FT annual Stewardship reports for 2011/12, celery top pine availability has dropped from 2026 cubic metres of high quality Cat 4 sawlog in 2010/11 to just 310 cubic metres in 2011/12 and a forecast cut of less than 20 cubic metres in 2013 (about 5 trees) – **a reduction of over 99% from 2010/11 levels.** FT's explanation of the reduction has been that they have not been able to cut coupes scheduled for harvesting whilst the IGA negotiations have been ongoing.

Again, this either highlights the complete lack of understanding by IGA/IVG/TFA/Government parties of the impact of their activities on the SST sector or a complete understanding that it would hurt the SST sector but the bigger prize was worth sacrificing our industry – there is no midpoint here. So which is it?

Not only has the IGA/TFA negotiations affected the supply of SST, we have also seen a commensurate spike in prices with some species, like celery top pine, increasing by over 25% in the past 2 years.

Anecdotal evidence from TSTA members confirms this shortage of supply across other species and some member comments from a recent survey are listed below:

- *Main concern is price and availability are linked and some costs are becoming prohibitive for local users;*

- *Securing a quality supply of boat grade timber has become increasingly difficult over the last few years; and*

- *Difficulty obtaining **legal** supplies of quality Blackheart Sassafras, Figured Myrtle and Blackwood, Birdseye Huon Pine and Tiger Myrtle.*

These shortages have forced businesses to stockpile timber to try and future proof themselves which is just not sustainable. As one of our members recently said;

"I have managed to store several years supply. I am, however, greatly concerned about future resources"

The impact on business investment using this "stockpiling" approach is dramatic and the stockpiling will push prices beyond that which local craftspeople can afford. Whilst some armchair experts are happy to tell SST industry members that the price should increase substantially for this precious timber resource as it must be undervalued, tell that to the small business owner whose client base has dried up due to unacceptable price increases. We are already paying up to $8500 per cubic metre(about the size of a telephone pole in qty) for some species. These comments by those not in the industry demonstrate their ignorance and are unhelpful at best. The stockpiling issue can be dealt with through greater resource security but at the moment we have anything but security.

The advice provided to MLC's by Mr Mike Petersen during the TFA bill debate late 2012 certainly warrants further investigation as his claims, if correct, are very alarming. If what he claims is correct, the SST value adding sector will be completely decimated.

The SST value adding industry needs surety of supply (a *guaranteed supply* to coin phrase from IGA clause 17) so that they can continue to be profitable, grow and provide long term benefits for the Tasmanian economy.

The IGA guaranteed a minimum of 12,500 cubic metres per annum of SST to our sector subject to verification. This was signed by the Prime Minister and Tasmanian Premier and was the figure often quoted by politicians. I remember one meeting I had with Senator Julie Collins in 2011 regarding the IGA. When the Senator was advised the proposed reserves would dramatically reduce the available SST resource she dismissed the concern by saying 12,500 cubic metres per annum was guaranteed – "it's in the Agreement".

I personally wrote to the Premier in April 2012 expressing my concerns over SST supply and the IGA. Her response dated 16th July 2012 stated;

The Deputy Premier and I have both publically stated on many occasions that any agreement will need to accommodate the guaranteed wood supply for industry as set out in the IGA. This of course includes the special species timber guarantees.

The Premier then goes on to say;

As you have stated, the IGA intends that the guaranteed supply levels for special timbers need to be verified. I understand that, as you have identified, the independent verification group led by Professor West did not directly address this issue in their reports released in March. I am awaiting the outcomes of the current discussions by the industry stakeholders and I will in particular looking to see how any agreement provides for the future of the special species sector.

(This response is available to the Committee on request)

Well the discussions are now over, the SST has dried up and the proposed future supply is in dire jeopardy. Where is the Premier now?

The Government were more than happy to sit in the lower house to push the TFA through and the Premier and Deputy Premier sat there completely dismissing opposition claims about problems with SST supply.

There really needs to be questions answered about this whole process in relation to SST.

- Where is the verification of proposed SST volumes?
- What is the justification behind providing a lower figure?

- Who decided our sector did not need the timber at levels that have historically proven to be barely enough?
- Why was the guaranteed wood supply figure so easily discarded by Government in the desperate attempt to secure an agreement?

Reserve proposals

Under the proposed TFA, the areas set aside for special timber production (only 3 years ago) have been cut dramatically. The 2010 FT Special Timbers Strategy had allocated just under 100,000 ha of forest for SST production and yield calculations had indicated that this area could supply an intergenerational supply of SST of 12,500 cubic metres on species dependant, long term rotation (200 years +). It should be noted that the yield of 12,500 cubic metres minimum per annum from this strategy was a figure arrived at from a yield perspective, not an industry demand perspective and without the additional SST coming from arisings of old growth integrated harvesting.

As mentioned above, the IVG were advised that the prior decade of harvesting had seen an average figure for SST of 16,748 cubic metres. The 2011 FT Stewardship report stated that during the 2010/11 FY **15,141** cubic metres of SST were sold with 3,936 cubic metres being non-blackwood species (i.e. sassafras, celery top pine etc).

FT advised these figures were in line with sustainable supply levels outlined in the Special Timbers Strategy 2010.

In 2011/12 FY, the FT Stewardship report showed a decline in SST harvest to **12, 938** cubic metres of which only 1682 cubic metres were non blackwood species – a drop of over 50% from the previous year. FT does note in this report however that the level of harvest was affected by IGA restrictions.

Although we have seen a reduction in harvest of non-blackwood SST, this should in no way be interpreted as a drop in demand. Industry has tried to make itself very clear on this issue with the government to no avail.

We heard in LC hearings this week from Mr Steve Whiteley, FT that it is hoped that the proposed reserves available for SST harvest will yield approx 9000 cubic metres per annum with 7400 of this being blackwood. This leaves 1600 cubic metres for 5 other species of which the huon pine allocation is 500 cubic metres. This figure is similar to what we saw in 2011/12 and our industry has been suffering from timber shortages.

On the surface, this would obviously not be enough timber to support the value adding industry. It was also quite telling that no yield calculations/age profiles/cost of extraction studies had been completed by FT so the actual yield figures may well be much lower. Mike Petersen's email to the LC late last year casts serious doubts on these areas to produce enough timber to support even a small cottage industry.

So what is the rationale behind the size of reserves proposed for SST production under the TFA? The following questions need to be answered by the TFA Signatories and the West Report signatories and I would hope that the LC can elicit this information.

1. What rationale has been used to determine the size of the proposed SST reserves in the TFA?

2. What is the annual demand of SST by species and volume of the SST value adding industry and has this been taken into account when calculating reserve sizes? (If FT have not done this as mentioned previously, then what are they basing their proposals on?)

3. What will be the cost per cubic metre of the SST species if the agreement is implemented as suggested?

TSTA also believes it would be worthwhile for the Committee and the public to be provided with all minutes of the signatories meetings with respect to SST as no doubt, it would shed some light on their thinking.

So given the **facts** about SST harvest supply/demand over the past decade it can be clearly seen that the proposed areas cannot supply an adequate amount of timber for the SST value adding industry. If the signatories can prove otherwise, TSTA would certainly welcome their advice to the contrary.

Socio Economic Impact of the TFA on the SST sector

Although the IGA process was to conduct a socio economic study on the impact of the IGA on the SST sector, this still has not occurred. An industry wide demand study was committed to by the West process as part of this study but was not conducted. Why?

To conduct a socio-economic impact study **AFTER** the TFA is implemented just does not make sense. These studies are normally used to gauge the effect of a proposed change before policy is effected – not after.

It is obvious that with a reduction in available timber and a substantial increase in raw material costs, many businesses will be forced to change or more likely to close. Other industry sectors such as sawmilling and logging contractors have been similarly affected but have been offered compensation to exit or change practices. Many businesses in the SST sector cannot transition out of the unique timbers they use as it is their "brand" and part of their competitive advantage that makes them viable.

TSTA strongly believes that a full socio economic impact study on the likely effect of the TFA on the SST sector should be carried out **BEFORE** any agreement is signed. If the impact of the agreement is such that businesses have to transition away from native forest timber or have to close then compensation/assistance should certainly be payable.

TSTA Position on the TFA

TSTA cannot support the TFA in its current form as it will obviously have a severe impact on our industry sector. Accordingly we propose the following amendments to the TFA/initiatives;

1. **All** areas identified as SST production areas in the 2010 FT ST strategy be excised from the proposed TFA reserves until such times that verification of special timber demand, required supply and socio economic impact studies are carried out. This does not stop the Tranche 1 reserves going through but they would be accordingly smaller with the SSt production areas taken out.

   The study into the special timbers sector should include but not be limited to;

   - Resource modelling in proposed areas by species, age spectrum/quality and annual sustainable yield volume;
   - Estimated cost per cubic metre by species and recovery method to special timbers downstream value adding users. This should also look at likely harvest methods – single stem extraction, heli logging etc;
   - Actual industry demand noting that on average 55% of special timbers are exported from the state annually (Farley et. al. 2009).

   Once timber supply/demand and socio economic impact of the agreement are known then and only then can reserve sizes and compensation to industry be set.

2. Special Timber production areas are to be legislated as such and be exempt from further reduction in size through environmental/political campaigns in the future. Business does not operate on political cycles and needs long term certainty to justify investment.

3. TSTA requests an immediate resumption of harvesting (i.e. in this summer/autumn period) of SST species that are in critical demand such as celery top pine and black heart sassafras. The target quantities should be in accordance with the FT Special Timbers Strategy i.e. 500 cubic metres each as an annual target. Please note that this is not industry demand, it is only what supply has been agreed to between signatories.

   The boat building industry currently has no celery top pine available and even if harvest operations were to occur this summer, useable timber would still be 12 months away.

   Provision is clearly made in the TFA for this to occur in clause 4c and also clause 10. As the TFA signatories have already agreed to this there should be no impediment to an immediate resumption of SST harvesting as well as a continued harvest of SST in quantities specified in the FT Special Timbers Strategy 2010.

   TSTA also requests answers to questions on notice put to the Government through the Upper House regarding this issue last November. FT have advised that the Resources Minister has been provided with the answers to these questions last year.

4. <u>Establishment of a SST wood bank</u>.

   This initiative would be similar but on a larger scale to the Tasmanian Wooden Boat Board Bank which was established with a Federal government grant in the 1997 RFA. The bank would allow for the maximum recovery of special timbers and would establish a trading house for Tasmanian craftspeople. FT's IST in Smithton and Geeveston could initially be used to store timber in cut form to suit industry demand. A suitably sized Federal/State (approx $5m) grant would be provided for the establishment of this bank, including storage facilities and management costs. The bank would be essential in managing SST arisings from fire, mine/road clearance events, dam salvage etc. The SST wood bank management would liaise closely with the value adding industry and the forest manager to ensure that demand is met on a species by species basis, as well as formulating short, medium and long term harvesting plans.

   Access to the SST wood bank would be for Tasmanian craftspeople and running costs would eventually be covered by an annual access fee.

   The SST wood bank would smooth out fluctuations in supply and demand and allow the value adding industry to free up funds to invest in their business and grow.

5. Amend Clause 9 of the TFA to include TSTA/Tasmanian SST value adding industry on the stakeholder council. There is a strong conflict of interest in having ENGO's and also Forest industry reps who are environmentally or financially benefiting from this agreement decide on the future resource yield and access to SST. The signatories have had ample opportunity over the past 2 years to include SST in the IGA/TFA and to date it has not occurred.

6. Obviously the TFA will result in higher raw material costs to the SST industry as a direct result of the reduction in native forest harvesting. Accordingly, TSTA requests government assistance for the following initiatives;

    - Roading and coupe access. FT has advised that some of the SST contained in the proposed reserves is difficult to access and there is no infrastructure in place to facilitate tree extraction.

    - Harvest method study. Without integrated harvesting, small scale harvesting including single stem extraction of SST will be required. Initial discussions with the forest manager (FT) has indicated cost of SST recovery will rise dramatically as a result. TSTA requests funding for a study into the most appropriate and cost effective harvest methods for extracting SST from SST reserves. For example, this could include a helicopter extraction trial. This study will assist finalising the socio economic impact study.

7. The current IGA/TFA discussions have had a negative impact on the SST industry sector as clients/potential clients query whether or not to have products made here if SSTs are not available. To counter this, funding should be made available to promote the Tasmanian SST value adding industry and let prospective buyers know that the sector can provide products from our world class resource. A permanent website presence and media campaign funded by the State/Federal Government as part of this package would be a good start. The website could be a central landing page promoting Tasmanian SST products with links to individual businesses. A great example of how effective this can be can be seen in the USA. Maine has long been associated with wooden boats and a federal grant to promote Maine as the centre for excellence for wooden boats has been a resounding success. . Through grant funding, the umbrella website www.mainebuiltboats.com was established and the results speak for themselves.

8. Forest contractor education. TSTA requests funding for an ongoing education programme for forest contractors who will be responsible for

harvesting SST. This programme would involve time spent with individual businesses/users of SST to gain a better understanding of what industry requires. TSTA recognises that there has been some work in this area by FT already. A good example of industry requirements versus contractor requirements is as follows;

Boat builders love to use long curved planking stock as it means that they can use a skinnier boards to cover the curves surface of a boat. Unfortunately, a curved log is difficult to fit on a truck so a lot of times it is cut in the middle into two shorter straight pieces.

Time would also be spent at SST millers so that the eventual result will be more SST product is recovered and not wasted.

Conclusion

The Tasmanian SST value adding sector is an essential part of Tasmania's economic, cultural and historical fabric. The proposed TFA stands to decimate this industry if it is passed in its current form and would TSTA asks all MLC's on the Committee to consider the proposals put forward in this submission.

As President of the TSTA I would welcome the opportunity to attend the hearings and discuss these proposals in person.

Andrew Denman

President

Tasmanian Special Timbers Alliance

0413765984

andrew@denmanmanmarine.com.au

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